
AN INVESTIGATION INTO THE FOUNDATIONS OF
PRODUCTIVITY
FOR
BUSINESS, PROFESSIONAL AND FINANCIAL SERVICES
IN
WEST MIDLANDS COMBINED AUTHORITY AREA
PRODUCTIVITY & SKILLS COMMISSION – SECTOR SPECIFIC
ANALYSIS

[SUBMISSION FOR WMCA BOARD – JUNE 2018]



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Economic Intelligence Unit

ABOUT THE RESEARCH TEAM

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FOREWORD

Over the past 25-30 years, the business and professional services (BPS) sector has been ascendant in the West Midlands. In the context of productivity and skills, it is the biggest contributor to the regional economy and a significant employer of high quality jobs.

Economic forecasts show further significant growth over the coming decade. When combined with external factors such as Brexit, the National Industrial Strategy and advances in technology and big data, it is timely that the WMCA properly considers the productivity challenges facing our sector.

BPS sector firms represent one of our strongest assets, not only for the contribution they directly make to the regional economy but also for the vital ecosystem that supports the growth of businesses in other sectors.

This is the backdrop to the challenge set by the WMCA Productivity and Skills Commission, resulting in a deep-dive analysis and the findings presented in this report.

A key part of the work-stream has been validating the size of the sector in the region, its contribution and the opportunities before us. The findings are unequivocal.

It is clear that the BPS sector - specifically in relation to financial services, law and accountancy - has reached a critical mass with a full service offering that has the ability to compete on the global stage. This cannot be said of many other regional cities and puts the West Midlands at a clear competitive advantage.

The quality of intelligence that underpins this report and its conclusions cannot be found in the datasets alone. During this journey with the Commission over the past 12 months, the importance of incorporating local insight into the formation of economic policy in a regional content has been paramount in our approach. To proceed otherwise would not only risk the quality of output, but would disregard the stakeholders and agencies on which future actions will rely.

There is always more that can be done, but the methodology piloted in business and professional services should prove beneficial to other sectors in the West Midlands, fellow regional cities and nationally.

I strongly encourage you to take the time to read the report in full, but ultimately this exercise has been about identifying priorities and a set of recommendations that are measurable and have real impact.

Looking at the five foundations of productivity and our research findings, People (skills) and Ideas (innovation) stand out as the clear priorities. Specific recommendations for action can be found in Part III, but the most significant point is that there is a clear case for greater intervention than before.

This is a sector that has looked after itself, but it is approaching a tipping point where complacency around skills and employment opportunities, combined with continuing low intervention could result in an imported workforce and non-inclusive growth.

Not only does embedding businesses through greater connectivity with local talent pipelines support growth, it also serves to increase the 'stickiness' of those firms to the region, which in turn fuels wealth creation, prosperity and better quality of life for West Midlands residents. These are, after all, the fundamental goals of our shared endeavours.

None of this could have been achieved without the talented research team comprised of City-REDI, BPS Birmingham and Black County Consortium and also the co-operation of this

sector's professional community. This report simply wouldn't have been possible without their willingness to engage, which is testament to the strength of this community.

A word of warning though: let's not jump ahead of ourselves.

Stage 1 is complete.

Stage 2 requires development of implementation plans underpinned by a business case.

As the local Industrial Strategy is being prepared and national sector deals for professional services are being negotiated, the time is now. There are no quick wins and inevitably actions taken now will not produce visible results in the short-term.

We need to be bold - with a stronger evidence base now in place, we should be more confident moving forward to a better skilled, more productive professional sector which makes an even greater contribution to the economic and social goals of the West Midlands.



Ian Barnes

BPS Sector Lead on Productivity and Skills Commission



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PART I – INTRODUCTION & APPROACH

WORK OF THE PRODUCTIVITY & SKILLS COMMISSION

The UK is facing a number of critical challenges at the present time but the most fundamental of these challenges are the result of significant regional differences in productivity, economic growth and social well-being across the country. It is crucial that political and business leaders successfully adjust and adapt their economies, in order to respond to this and improve our future prospects as a nation, this work helps us understand and assess the sector in the context of change. These uneven patterns of inequality and socio-economic opportunity were a key factor behind the Brexit vote and City-REDI research, modelling the exposure of UK regions and sectors to the trade effects of Brexit, has concluded this and raised the issue of resilient and prepared economies being key to success (Ortega-Argiles et al., 2018)

The Productivity & Skills Commission has been set the task of understanding the true extent of the productivity challenge in the West Midlands, identifying the component causes and making recommendations to address the issues identified. Within the Commission, sector representatives lead the work-streams relating to the identification of productivity challenges, opportunities and recommendations and this report covers the output of this activity for the Business and Professional Services (BPS) Sector.

The aim of this research was to create an evidence-based strategy to set future industry and regional strategy to grow the BPS Sector. The research aims to investigate the limiting factors to inclusive growth locally, and ways in which providers of professional and business services can potentially help address these.

BUSINESS AND PROFESSIONAL SERVICES SECTOR IN FOCUS

The Business, Professional and Financial Services (BPFS) sector¹ is a significant and diverse sector, covering international banks and insurance companies, architects, scientific research and development, employment services, rental and leasing activities through to more traditional accountancy and legal services. Although hit by the financial crisis of 2008, employment and GVA since have risen, and it is forecast to be one of the most important growth sectors in the next fifteen years. The sector also contains high-quality, high-skill and well-paid jobs, all of which are forecast to increase significantly in coming years. For this reason, it was chosen to be the first sector within the workings of the WMCA Productivity & Skills Commission to undergo a 'deep-dive' investigation into how to stimulate growth and increase productivity in this region.

¹ The BLFS sector is defined as Financial service activities (SIC 64); Insurance, reinsurance and pension funds (65); Activities auxiliary to financial services (66); Real estate activities (68); Legal and accounting activities (69); Activities of head offices (70); Architectural and engineering activities (71); Advertising and market research (73); Other professional, scientific (74); Rental and leasing activities (77); Employment activities (78); Office administrative, office support (82); and Activities of membership, repair of computers and Other personal service activities (94-96).

More specifically, the deep-dive team² were tasked with understanding sectoral contribution to key economic indicators and more specifically, answering the following questions around how:

- Does improving the sector or changing the sector improve performance across the whole economy and other sectors?
- Which parts of the sector need investment and what type of investment?
- How do we lock in the companies to the region and ensure the economic benefits remain here i.e. HQ effects, employment effects?
- What interventions have been delivered elsewhere in the sector and what other best practice can we hook into to identify potential opportunities for the sector?
- Can we create real (or better) estimates of productivity?

These research questions guided activity that broadly followed a mixed methods approach involving: sector definition; desk-based research; employer engagement; activity mapping and modelling of potential impact before arriving at a set of recommendations back to the Leadership Group of the P&S Commission and ultimately WMCA for consideration. The rest of this document reports the findings of this work.

WIDER CONTEXT

This work sits within a backdrop of a sector facing significant changes, which will re-engineer business models and practises, change jobs and functions and the geography and value chain of the sector. AI, data tech and process technology are all radically changing the service models and income opportunities and a sector which is already highly skilled is becoming more so. As back office functions are replaced by technology the traditional labour structures are altering, reducing and shifting. This work helped inform the regional investigations and looked at how the sector might be better future proofed.

The UK Industrial Strategy lays out 5 foundations of ideas; people; infrastructure; business environment and places; this work explored the BPS sector in relation to these foundations³. Within the context of the IS it is important to explore R&D in the sector and the team's work so far demonstrates that the sector is highly reliant on client driven innovation, which can lead to underinvestment if clients are not willing to pay or buy the service. Employees in the sector have a propensity to be risk averse due to the nature of their core business which can also constrain innovation. This work will influence Local Industrial Strategy development and look at how the region can realise its full potential. Hence, it will sit within the context of this national policy framework and will aim to contribute to the understanding of achieving the Grand Challenges, especially putting the UK at the forefront of AI and the data revolution as we will explore its impact on the sector. Done well the work will also help to understand how to maximise the sectoral advantages in global growth and innovation.

² The Deep-dive was led by the sector representative, Ian Barnes, Tax Partner at Deloitte LLP and Chair of BPS Birmingham, with the support of BPS Birmingham, City-REDI at University of Birmingham and the Black Country Consortium.

³ Industrial Strategy: building a Britain fit for the future. BEIS 2017

<https://www.gov.uk/government/publications/industrial-strategy-building-a-britain-fit-for-the-future>

City-REDI has already carried out a series of research projects on the Business and Professional service (BPS) sector (Green 2012; Bryson and Daniels, 2007), which has helped the research team to appreciate the interdependencies between providers of business and professional expertise and other sectors' firms, and therefore the role they could potentially play in an inclusive growth agenda. Their wider work on the sector means that there is already considerable insight into the key barriers and opportunities these firms are facing. This makes the research team well placed to make practical and informed policy recommendations on how local areas could help the firms overcome some of these challenges and attract investment and has complemented the collaborative approach with BPS Birmingham and Black Country Consortium, led by Sector Champion Ian Barnes, Deloitte.⁴

In addition, City-REDI's recent work on emerging local industrial strategies brings valuable knowledge on the urgent need to develop and implement regional variants of the national Industrial Strategy (Green et al., 2017), with greater devolution of resources and power. This is bolstered further by Industrial Strategy work developed through secondment to the Cabinet Office, providing a very well informed perspective of the structures and conditions for the growth that the government is trying to achieve with their national strategy. Success of this project is dependent on organisations (including the public sector, university institutions, and businesses – including BPS firms) responding by transforming their practices at the local level, to help drive change. City-REDI are also currently engaged in helping to develop the West Midlands Local Industrial Strategy, measuring success and developing a pathways to impact approach, as well as developing recommendations for the BPS sector in partnership with the BPS Birmingham.

Lastly, extensive experience of researching the economic geography of UK cities and regions (McCann and Ortega, 2013/2016; Collinson and Morgan, 2009) means that City-REDI can appreciate how places vary because of their complex combinations of:

- people (demography, skills, preferences),
- built assets (housing, stadiums, cultural attractions),
- transport and communications infrastructure (from rail and roads to broadband),
- firms and local value chains (large and small, across different industry sectors)
- anchor institutions (city councils, local authorities, LEPs, schools)
- innovation assets and capabilities (universities, R&D firms, science parks, start-ups)

These combinations attract and retain different businesses and skilled people, providing the foundations for different kinds of investments and driving different kinds of growth. Policy interventions need to take these variations into account and while there is a place for an overarching industrial strategy at the national level which sets the direction of travel and focus, there is also a need for place-based industrial strategies in the regions which utilises and build assets and ensures a more balanced approach to growth. These regional industrial strategies across the UK should be developed as customised and focused variations of the national industrial strategy. There is no point in developing complete alternatives to the national plan, economically or politically, but they do need to be based on an understanding of the current and future competitive advantages and constraints at the local

⁴ More information on the research team members can be found in the inside cover of this report.

level. This “no-one-size-fits-all” approach builds on our research on Smart Specialisation (McCann and Ortega-Argiles 2016), which encourages policymakers to develop policies that build on a region’s existing assets, rather than adopting “off-the-shelf” policies. It finds ways to foster entrepreneurship, technological diversification, and connectivity on the basis of the region’s existing skills, technologies, and institutions. The smart specialisation approach is underpinned by OECD (2011) thinking and links processes of self-discovery (Hausman and Rodrik, 2003) to place-based innovation policies in a manner that is aimed at helping regions identify their competitive niches. Smart specialisation approach emphasizes creating the right governance mechanisms to identify and cultivate growth opportunities to undertake collaborative processes of planning and implementation, and to encourage a changing regional mind-set that prioritizes novelty and risk-taking (Wolfe, 2010).

Services sectors are particularly difficult to measure and monitor and understanding performance is problematic; this research sits within this context. It is easy to make assumptions and interpretations of national data which may not be an accurate reflection of reality on the ground due to measurement issues. This and the above themes are taken forwards into the deep-dive methodology.

CURRENT STATUS OF BPS SECTOR IN WMCA

According to economic intelligence and available datasets, in 2015, BPS sector employed just over 400,000 people and contributed over £24,000m of GVA to the WMCA’s economy. It contributes one in five jobs and 28% of WMCA GVA. Table 1 below shows that employment is forecast to grow by 31% between 2015 and 2030, and GVA is expected to double. As such it is one of the most significant sectors in the region in its own right. In addition, it is recognised that a thriving BPS sector is valuable for enabling the growth of other sectors through the services it provides to businesses. For all of these reasons, the BPS sector was selected to be one of the priorities to undergo a ‘deep-dive’ analysis to inform the Commission’s work.

The focus initially was on defining the sector consistently, understanding potential and developing a methodology that was replicable for other sectors. The BPS sector is a collection of sub-sectors, which have a mixture of geographical spread, labour requirements and skills differences amongst other prevailing characteristics. Consequently, there was a clear need to differentiate between these subsectors based on differences in levers, actions and potential specific performance KPIs.

Table 1 shows the subsector definitions adopted, and their current/forecast contribution to productivity and employment. Others service activities accounts for almost one quarter of BPS jobs in the WMCA, whilst Support Services, Real Estate, and Other Service Activities each account for around 17% each. Total GVA is highest in Real Estate which contributes over 43% to total BPS GVA. In comparison, Financial Services contributes around 20%.

Total BPS GVA is forecast to double between 2015-2030. The largest numerical increase is expected in the Real Estate, and Financial Services subsectors. The largest percentage increases are estimated for the Advertising, and Support Services subsectors. The highest absolute jobs growth is forecast in Support Services, and Real Estate, whilst the largest proportionate growth is expected in Advertising and Support Services.

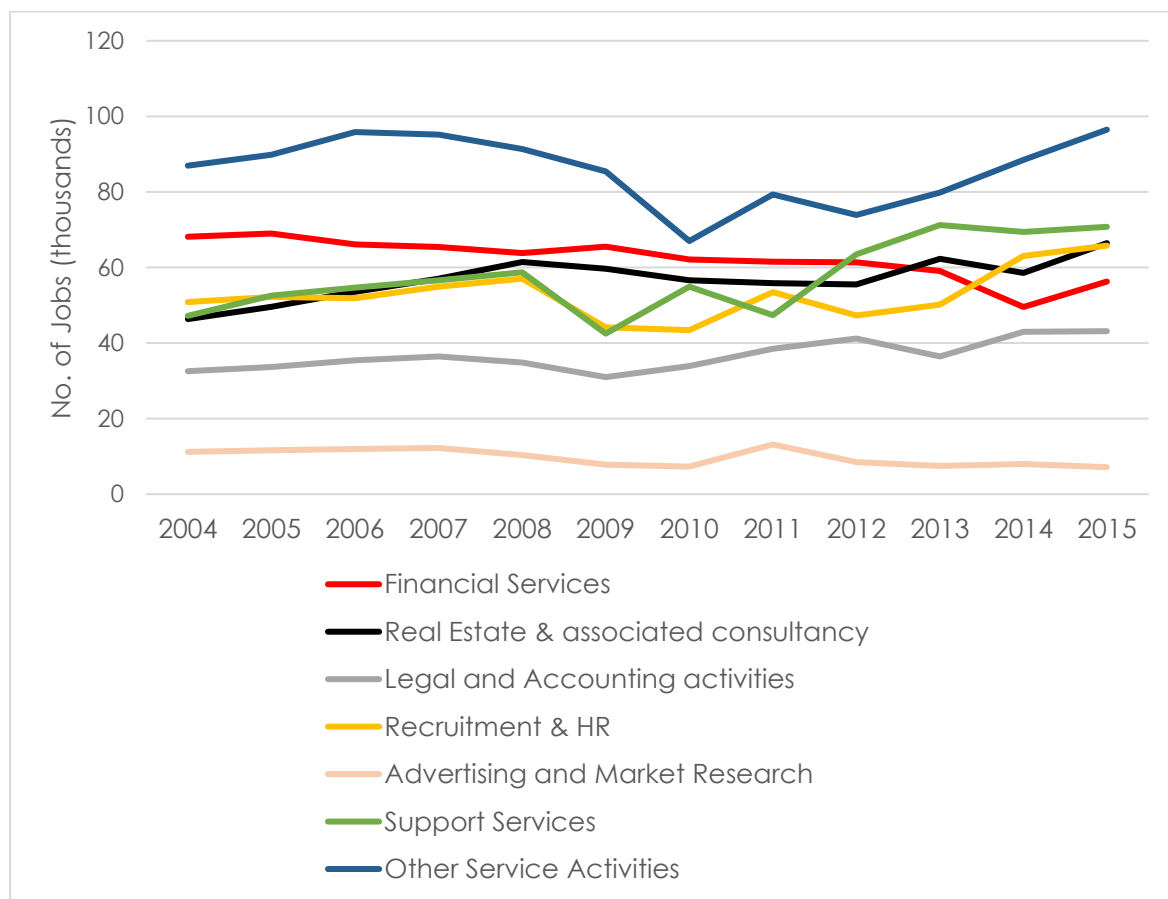
TABLE 1: GVA AND EMPLOYMENT IN BPFs 2015 AND 2030 TARGET WMCA

GVA per employee across BPFs sub-sectors (2013 prices)	GVA (£m, 2015)		Jobs (2015)		GVA per employee (2015)		
	WMCA Total	%	WMCA Total	%	WMCA	UK	Difference
Financial services	£4,459	18.5%	56,265	13.9%	£79,251	£106,131	-£26,880
Real estate and associated consultancy	£10,457	43.3%	66,442	16.4%	£157,392	£190,966	-£33,574
Legal and accounting activities	£1,336	5.5%	43,142	10.6%	£30,973	£39,397	-£8,424
Recruitment and HR	£1,583	6.6%	65,779	16.2%	£24,067	£27,166	-£3,099
Advertising and market research	£229	0.9%	7,148	1.8%	£32,059	£43,921	-£11,863
Support services	£2,576	10.7%	70,736	17.4%	£36,412	£45,543	-£9,130
Other service activities	£3,511	14.5%	96,478	23.8%	£36,391	£40,525	-£4,134
Sector overall	£24,152		405,989		£59,488	£75,560	-£16,072

Source: WMCA's Economic Forecasting Model

Figure 1 shows that between 2004 and 2015 most subsectors showed jobs growth up to the financial crisis in 2008. The exception was Financial Services. The financial crisis reduced employment 2008-2010 but since then all subsectors have seen jobs growth except for Financial Services and Advertising.

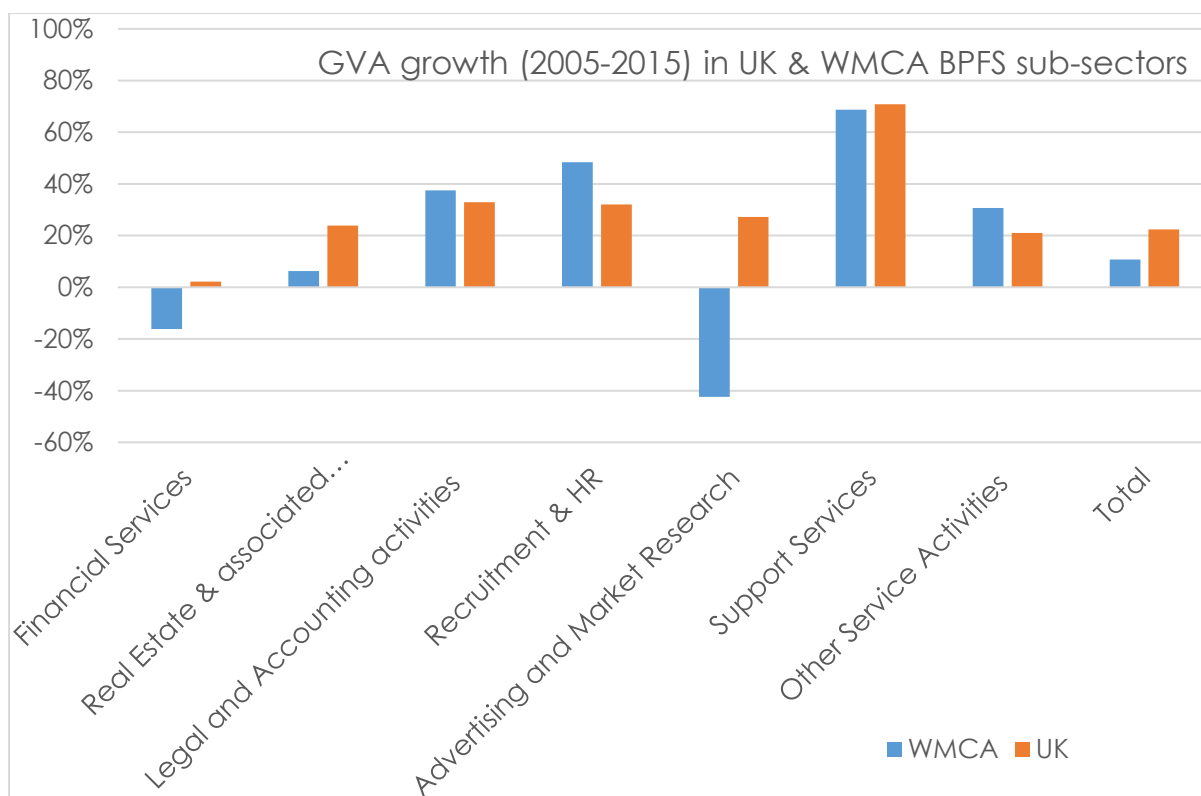
FIGURE 1: EMPLOYMENT IN BPFS SUB-SECTORS, WMCA 2004-2015



Source: ONS, Regional gross value added (income approach), UK: 1997 to 2015

WMCA GVA per employee in BPS is lower than the UK by £16,072. All sub-sectors lag behind the UK overall when it comes to GVA per employee, with Real Estate and Associated Consultancy having the largest deficiency, followed by Financial Services. Since 2010 WMCA has grown faster in the majority of sub-sectors, but not in Financial Services & Real Estate, which are the most productive/highest value sub-sectors. Jobs growth shows a similar picture with 13% growth since 2015 in WMCA and 20% in the UK. Since 2010, growth across the whole sector has been faster in WMCA than that of the UK as shown in Figure 2.

FIGURE 2: GVA GROWTH (2005-2015) IN UK & WMCA BPS SUB-SECTORS



Source: ONS, Regional gross value added (income approach), UK: 1997 to 2015

In terms of prioritising the sub-sectors to take forwards in this pilot deep-dive, this understanding of current economic performance, potential and known impacts and opportunities not yet reflected in the data - most significantly the arrival of HSBC's new HQ in Birmingham in Spring 2018 – the Financial Services subsector was chosen to be the first focus of the BPS Deep-dive activity. The Legal and Accountancy sub-sector was also incorporated given the synergy and interdependencies with Financial Services. Whilst the Real Estate sub-sector is significant also, there is recognition that the apparent size is largely reflective of substantial balance sheets for property development due to the nature of their businesses, rather than being large employers per se. Hence the ability to influence is comparatively limited, but also to do so involves substantially different economic drivers and would therefore benefit from analysis in parallel with the Construction sector work-streams for the

Commission.⁵ This is anticipated to be part of future activity developing this analysis for the Commission.

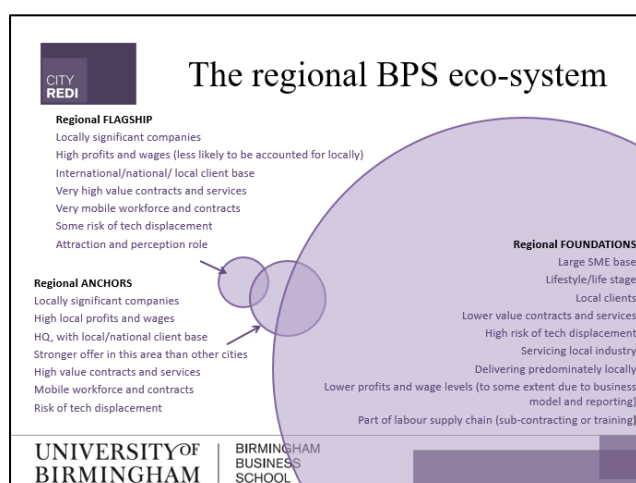
Further desk-based analysis was conducted for the two sub-sectors chosen to be taken forwards within the deep-dive. This considered more detailed analysis of jobs and GVA performance, but also included geographical spread, international comparisons, effect of HQs and regional comparators. This analysis subsequently informed the research design including employer engagement and activity mapping activities for the full BPS sector deep-dive.

RESEARCH APPROACH & METHODOLOGY

For the two sub-sectors prioritised from the above desk-based research, the focus was on medium and large organisations in order to capture evidence from companies most likely to see growth large enough to impact on GVA within the WM Strategic Economic Plan/Local Industrial Strategy time period. Employer engagement was a significant part of the deep-dive work because standard data sets do not reflect the full reality of the firms operating in the region for a number of reasons. For example, including head office effect missing out some of the largest employers in these sub-sectors because they are not head-quartered here and also GVA data does not flow accurately at a regional level for specific firms. Consequently, targeted interviews were carried out with senior leaders from the most significant firms in the region within financial services, accountancy and law sub-sectors.

Companies were therefore split into Regional Flagships (largely regional branches of international firms, with high perception value to the sector) and Regional Anchors (locally significant head-quartered companies with a local and national reach), as per Figure 3 below.

FIGURE 3: THE REGIONAL BPS SECTOR ECO-SYSTEM



⁵ Advertising & Market Research sub-sector was discounted as a primary focus because whilst significant in terms of proportional increases, the size of sub-sector is overall comparatively small. For Support Services, the differential with UK productivity performance for the region indicated less need for a regional specific approach to address specific productivity challenges linked to place.

- Within the timeframe, 34 qualitative face to face interviews were carried out with 40 of the identified companies in the sample. (NB: the others agreed, but time constraints on both sides were such that not all could be accommodated).
- The interview tools were developed in collaboration with WMCA and BPS to ensure they met policy requirements. This was done by developing a draft, piloting and finalising with WMCA. A structured approach was taken to the interviews which ensured information gathered was consistent and comparable and met strict time limits of 90 minutes. Both closed and open-ended questions were employed to achieve quantitative results, whilst giving the opportunity to explore in detail where necessary. Where possible questions were mirrored questions from other national surveys to allow comparison across sectors and geographies if necessary.
- Additionally 4 dedicated focus groups were undertaken alongside the shared evidence from 4/5 aligned collaborative discussion events using the academic, policy and business representative organisation to ensure high quality respondents and access to a normally commercially protective sector and one looking at distribution of the sector across the region.
- The structure was designed to test the reality of productivity measures on the ground and whether the gap in productivity is real; and if it is, why. It was designed to provide insights into linking the macro measures to the micro business action
- The views of the research participants and the sector leads were that SMEs in this sector are largely lifestyle in nature, often set up once an individual has gone through the standard career path; therefore, tend to be winding down, not gearing up. Therefore, these were not covered in the work.
- Questions covered the 5 foundations (drivers) of productivity and where possible link to national surveys for future analysis and benchmarking. These drivers were then used as the basis of the analysis and also fit with the emerging Local Industrial Strategy requirements. (Results have been presented in detailed slides to the Commission board, based on the structure of the Industrial Strategy accordingly, as too has this report).

The evidence gathered has provided invaluable understanding of standard productivity measures and how they apply – or more to the point how they do not apply - to the BPS sector.

Whilst every effort has been made to ensure methodological rigour, there are potential issues to bear in mind before reporting the findings in Part II of this report:

- Speed of set up and delivery may affect the comprehensiveness and capacity to interview the sector widely and decisions were taken to prioritise certain sub-sectors, as noted previously.
- Cognitive bias in the respondents may affect the responses. For example: attitudes to those who do not fit the traditional norm (millennials), spotting challenges which come from outside their sphere of knowledge (impact of tech).

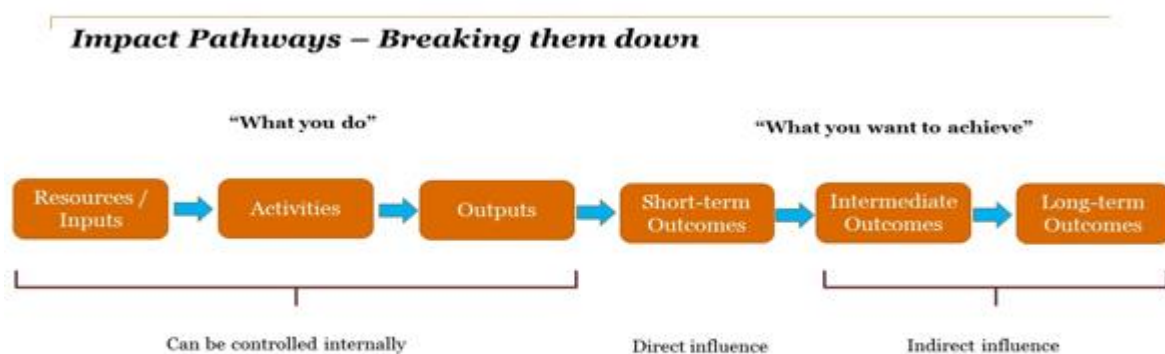
MAPPING OF INTERVENTIONS

Contemporaneous to the employer engagement research activities, a mapping exercise was carried out, plotting interventions, initiatives and activities for the BPFs sector, and where possible, specifically to the sub-sectors of interest. The primary purpose of this stage was to:

- Understand what already exists and is happening to address business needs
- Review where public money has been used to address productivity related challenges in the sector
- Identify any gaps that may exist with an opportunity to increase productivity
- Assess potential of activities with a view to making recommendations to “super-charge”, “maintain” or “consolidate”.

Activities were mapped according to whether sector specific or activities that sector firms engage in significantly within the region, this was carried out adhering to a logic chain approach, which enabled us to trace impact: we looked at the project, its activities (outputs) and objectives and expected outcomes. In terms of the process, well over 50 types of activities logged and mapped. Engagement with key stakeholders to contribute and review was a vital part (E.g. Chambers of Commerce). Theory of Change based logic chains were developed (See Figure 4), based on the approach previously adopted by WMCA, applying DEIM Model (skills and business support module) to assess likely economic impacts of interventions on the key indicators.

FIGURE 4: THEORY OF CHANGE BASED APPROACH TO MAPPING ON INTERVENTIONS



Theory of change, impact pathways and outcome mapping are approaches which assess real and tangible change, introducing monitoring and evaluation considerations at the planning stage of a project. This approach provides a way of also challenging project partners and should identify behavioural changes to achieve the desired outcomes, whilst understanding the potential contributions of individual interventions on outcomes.

Outcome mapping works best when:

1. There is the existence of complexity in an intervention - this might be uncertainty of results.

2. Recognition and willingness to act upon complexity and understand the rationale for intervention, and to move beyond cause effect logic.
3. Commitment of champions and availability of appropriate technical support.

This approach allows us to map local action to broader performance, although this mapping should be done at an intervention level as part of the Treasury Green Book approach and the 5 Case Model, developing the strategic, economic, commercial, financial and management cases. A full business case should demonstrate how interventions should contribute to the overall strategic delivery of outcomes. However, this means that identifying broad outputs is potentially difficult and inappropriate at a higher level; rather outputs should be associated with the core purpose of an organisation or a programme. All partners should contribute to the overall outcome indicators and understand how they contribute to the overall aims and goals, if this work and the recommendations herein, are taken forwards.

PART II - FINDINGS & DISCUSSION

FINDINGS & DISCUSSION

The content gleaned from the employer engagement activities has provided a rich evidence base and covers a broad range of areas of interest. These are presented in turn in this section, before drawing conclusions in the final part of this report.

REFLECTIONS ON THE RESEARCH METHODOLOGY:

Reflecting on the quality and broad themes emerging from the interviews, the key points to note are:

- Access to companies was not an issue, largely due to willingness to contribute, a highly self-co-ordinating sector in the region and the role of BPS Birmingham in orchestrating this community.
- High level of consistency in answers and high level of declines for questions around income/wages, particularly for commercially sensitive information - especially in relation to clients. Strong statements around confidentiality are recommended as a point going forwards to enable transferability to national work, such as National Sector Deal discussions.
- High degree of agreement that the sector will grow significantly in Birmingham/West Midlands and this will happen without public sector business support intervention. This to some extent would be at the detriment of other cities (including London). Focus for support and intervention ideas therefore was on diversity of the labour force, how can they achieve this growth through inclusive approaches to recruitment and training local people? And how can they develop their approach to innovation?
- High degree of collaboration and sense of community across the sector to tackle issues with lack of external help. This has clear implications for industrial strategy in that it is the sector which will grow without any attention to the needs of the UK economy or local strategic plans as they do not really know any other way of doing it.
- Related to this though was a strong sense of frustration with the public-sector attitude. Statements such as '[BPS sector is] not a priority', rather we 'look after ourselves' or are 'taken for granted' were frequent and common sentiments.
- There was little knowledge of local procurement of supply chain impacts, but also this was a small part of their business.
- How they innovated caused the most hesitation in answering.
- "Perceptions of the sector" was seen as their biggest challenge. There was also though a strong sense of belief in the Mayor to raise the profile of the region and attract investment and skilled employees.

And similarly, the key reflections from the intervention mapping include the following points:

- There was a wide and varied set of activities and although a good degree of co-ordination via representative organisations like BPS, there was very little engagement from local skills and business support structures (with the exception of BMET). That said, lack of coordination is a commonly cited challenge from members of the community on these issues, particularly skills related solutions.

- As many of the interventions were developed from the sector for the sector there is a high degree of alignment from the findings of the research to the respective interventions, however some issues with duplication, and size and scale.
- Activities relating to skills by far the most populated section. This reflects existing awareness of sector businesses needing to reach new talent pools as well as providing opportunities aligned to employees' values. (E.g. giving back, promoting sector/ region and young people are common themes).
- Mixture of formal and informal activities in both maps, but very little public-sector intervention. This aligns with employer interview evidence, particularly the self-reported relationship and self-organisation of solutions.
- Blurring of lines between business development, customer service and corporate social responsibility; in each case requiring clarity of motivations. (E.g. firms putting on events increased significantly; establishing own networks for competitive advantage.)
- Considerable duplication – or appearance of duplication – in key activity areas, particularly for schools (E.g. school-business engagement; mentoring. Over 10 sector specific networks active in region)
- Underpinned by a culture of finding own solutions for own challenges that are in fact shared and common across sector businesses. (E.g. creating own outreach programme for interfacing with schools; engaging with HE for talent/ recruitment needs). This also reflects a longstanding reality that there is no central infrastructure or historic interest to intervene for this sector, which perpetuates inefficiencies and self-organising culture.
- 'Hobbyist' nature to a vast majority of activities, particularly around skills; it is important activity to the businesses and the people within them but isn't core business. Most lack proper investment/ infrastructure and evaluation is very informal. Interventions are largely small scale and impacts are therefore small scale, but some significant examples of good practice and piloting which could be built on and expanded.
- Strong desire to promote the region and 'do their bit' externally to help attract & retain talent, but unclear how to meaningfully impact this agenda and 'get the message out there'. Existing activities are supported but inconsistently producing low level impact at best, as noted above.
- No sector specific activities identified for innovation. Sector is less keen to collaborate on due to competitive relationships, as compared to skills/ HR matters. There are some further issues around innovation and interventions, however the research did not go into enough detail to be able to identify appropriate interventions beyond what is already in train.
- Very few activities (and virtually no sector specific ones) for enterprise, competition and investment. Again, this aligns with employer evidence that these are less relevant to productivity challenges faced.
- Rhetoric/ narrative of BPS sector as strategic priority and importance as an enabling function for fuelling other sector growth is largely absent externally in key stakeholders. Activities mapped and/ or organisations reviewed do not externally support or champion this view enough.

Logic chains were considered for the interventions mapped and in the case of recommendations, were fully developed for three. These can be found in Appendix 1.

HIGH LEVEL FINDINGS

Considering the evidence in relation to the BPS sector, building upon the initial desk-based research, the high-level findings were:

- The West Midlands is the only place with a 'full service offering' outside London, and with the exception of high end financial management (related to the stock market and investment) all services are available and most of the big companies have a full-service team locally. There was no consistent specialisation, although some alignment of specialisation based on local strengths i.e. exports, automotive, advanced manufacturing. However, a highly distributed client base does mean this is not a business imperative.
- West Midlands has a different distribution of occupations compared with the national picture, with a higher skilled, higher value profile of occupations. This is largely because the sector is not characterised by back office jobs, but technical professional roles.
- In the larger firms, clients are highly distributed, with no consistent pattern across local, national and international markets. The average percentage share was 40% local, 52% national and 8% international (but this varied across companies). However, this indicates Birmingham is not simply a 'regional' centre. Clients were seen as being anywhere in the UK and they were passed around the company to wherever the skilled individual worked. Digitisation of services means that clients can be anywhere, which is changing the geography of the sector and its relationship to its clients.
- The sector is though driving significant change in the local environment, with large scale infrastructure investments, demand for a thriving cultural offer, national and international travel connectivity and high value housing.
- BREXIT although seen as an unknown and contributing to economic instability, was not seen as one of the major challenges for them as companies and in fact could be a growth opportunity as business seek advice on how to deal with BREXIT. The main challenges are AI and tech, general economic stability and the general changing labour market structure in the sector, where traditional high-volume services are disappearing, going online and where back office jobs will be significantly reduced in the next 5 to 10 years.
- There are gaps locally and nationally at the 5 to 10 years experienced professional levels common in the sector but has been exacerbated as there was a dip in recruitment following the crash which is now filtering through. It is also reflective of the anticipated growth of the firms putting more pressure on resourcing at this experienced level.
- The sector does not naturally innovate and most innovation is organic on the back of client demand, or competition.
- There is a perceived competition structure where the more international the client is the more likely they are to move up the BPS structure in terms of firms' breadth, depth and reach.
- The sector has a significant role in the competitiveness of other sectors and although they had not necessarily thought of their role in these terms, they could easily articulate clear examples of impact. The types of activities included reducing risk and costs associated with fines, contract breaches, contract negotiations; increasing export opportunities and reducing cost of loss of goods during exporting; reducing employee costs through better recruitment and contracting; providing signposting to

other local stakeholders and developing better business plans for growth of companies.

SPECIFIC FINDINGS ADDRESSING POLICY QUESTIONS

This section draws on the evidence base to address the 'exam questions' set at the outset for the deep-dive.

Q1. Does improving the sector or changing the sector improve performance across other sectors?

Yes, it is the core nature of the business of the firms in the sector such that if they do not do this they fail. The consequence of this is therefore that all income, wage and profit could be said to be attributed to the development of other sectors. However, this is difficult to quantify directly.

Also, the nature of the firms' supply chains and client bases mean the impact can be felt outside the region. Regional embeddedness varies and is not something the firms either monitor or track.

There was some evidence of staff moving across sectors especially at senior levels, into their clients. In most companies they saw this as beneficial and track ex-employees as clients. Highly trained accountants for example moving into Tier 1 and 2 manufacturing companies is common.

Professional services firms however are not tied to the geographical footprint where they are located and are highly mobile, both in terms of staff and functions. This puts a greater emphasis on places needing to create attractive environments of the sector, in terms of access to skilled labour, high quality building infrastructure and transport (nationally and internationally)

Q2. Which parts of the sector need investment and what type of investment?

A clear theme in the responses was the ability to innovate. The sector is highly client reactive and there are issues with capacity to innovate and knowledge on how to innovate. This client driven innovation raises the importance of sophisticated business development skills, which enable individuals to develop solutions to client problems and operationalise them. Respondents often referred to industry networks and events as their main source of innovation beyond clients but felt the region lacked the density of this type of activity as available in London or internationally. Specific areas mentioned include new forms of technology, changing business models and new labour markets.

The most mentioned specific skills gap were tech skills, although there was a marked difference in the sub-sectors in how they were approaching filling this gap. The banking sector are building the capacity and competing for staff against other sectors, whereas other subsectors were typically buying specialists on a project by project basis or partnering with tech companies, although there are outliers to this trend in the region. However, in both

cases, the skills or companies are not based in the region and they are more likely to go to London to access them. These skills are not purely fintech, and are broad based across document management, AI, process management, client management, business intelligence, modelling and knowledge management. The lack of tech cluster means these services are being bought outside the region and creates a gap in the local value chain.

Investment in future workforce and attracting highly skilled labour into the region is of significant concern to the sector and the predicted growth cannot be sustained unless the labour pool is grown. The speed required means that there is a need for a twin approach and long-term local labour market development and short-term attraction process, which overcomes the significant perception issues faced by Birmingham and the West Midlands. More so, there was significant concern that the regional narrative was not a reflection of the reality; that these job opportunities and the function of the sector were being underplayed and unrecognised in common rhetoric.

Q3. How do we lock in companies to the region and ensure the economic benefits remain here?

There is already significant lock in, as evidenced by the comments relating to place and access to skill amongst others. However, this must be tempered with earlier comments about real and/ or perceived low levels of intervention. Continued complacency is dangerous because companies and jobs are highly mobile, and work can shift literally overnight.

Key to this objective is supporting the attraction of staff, creating an attractive environment, reinforcing the growth perceptions and availability of high value jobs.

Q4. What interventions have been delivered elsewhere, in the sector and other best practice can we hook into to identify potential opportunities for the sector?

Generally, this is not a sector with significant public intervention, nor does it typically ask for it directly. However, a lot of interventions are driven by the sector itself, especially around developing local labour supply chains, diversifying the labour force and attracting talent. This has been highlighted in the extensive mapping that was carried out and impact of those interventions modelled where possible. Challenges are less related to gaps that need plugging; rather issues of scaling and efficiency of impact.

Q5. Can we create real (or better) estimates of productivity?

Firms do not monitor 'productivity' as measured by GVA (i.e. wages and profits); they generally measure in terms of utilisation of staff (income and charge out, amount, billable/fee earning and recovery rates, done per person). Therefore, the macro measure does not tie directly to the micro level and company action. Furthermore, all jobs are potentially 'good' jobs in terms of productivity – high wage, clear career paths, and ongoing investment in skills.

Similarly, companies do not report figures on a regional/office basis or manage activity on this basis, therefore it is unlikely GVA reflects 'productivity' accurately, as wages and profits

are not reported at that geography or easily aligned to it. Companies largely report very little difference in the wage levels between offices, i.e. an auditor in Birmingham earns the same as one in London (without London weighting, which was seen as minimal and doesn't offset living costs). This would implicate where you have higher value companies there will be very little productivity differentials. Any observed differences will be more aligned to the type and nature of the companies than the roles and functions. (There are some minor differences in job type where very specialist jobs are more likely to be in London i.e. hedge fund manager.)

In fact, as noted above, most respondents suggested clients are anywhere including London, and clients are passed to the appropriate specialist wherever they are based, often as a result of the individual's home base. But, client rates are higher in London and hence there is evidence of charging out of London whilst delivering from regions in order to maximise profits, which muddies the picture further.

PRESSURES ON PRODUCTIVITY

The sector doesn't tend to consider inputs, although there are pay pressures due to labour market issues. In terms of productivity, the working environment is one of 'must work harder' to create "maximum efficient output". Traditional high-volume services are disappearing and increasingly going online as ways in which the sector is looking for productivity gains. As a result, back office job losses over next 10 years are inevitable with significant job restructuring. There is a loss of the traditional pyramid structure and the sector is moving to column structure, to the detriment of the low skilled jobs which are being commoditised.

Regulation is having an impact in terms of putting pressure on productivity through causing time delays and increased costs.

There is a high level of worker involvement – measuring and accountability for the value of inputs of individual. (In the legal sector, this can be as precise as being measured in 6 minute units.) Performance is routinely monitored on a daily, weekly, monthly, quarterly and yearly basis, with performance targets the norm and often linked to pay and continued employment. There is also a significant shift in the sector approach to performance to also measure the 'people' aspects – valuing client satisfaction and customer retention more, to protect long term client relationships.

IMPLICATIONS FOR MEASURING PRODUCTIVITY

As a consequence of the commentary above, productivity (GVA) measure is unlikely to reflect the reality of the sector in the region. Geographic productivity differentials could be largely related to reporting processes and the design of GVA, coupled with a London centric view of the sector, which reinforces the allocation of wages and profits. This would imply that the growth levels are underestimated and is therefore that should certainly be watched over the next few years given the growth predictions of firms.

The region is strongly advised to focus on better measures of output performance and a more systematic approach to business surveying which reports on the productivity issues

identified is recommended, particularly as it would provide a consistent benchmark to measure interventions against. This would provide a challenge to the national outcome figures, but with the benefit of greater understanding of regional performance.

CONTRIBUTION TO PLACE THEME

The sector is driving significant change in the local environment, with new development, new infrastructure and changes to city centres. Most respondents reported growth in office requirements, but that the current offer and development programme is satisfying demand so far. The development of high quality office space at Snow Hill, Centenary Square, Brindley Place and Colmore Row in central Birmingham provides good opportunity for current requirements. However, respondents did stress that future growth may be constrained if current momentum dropped. There was also a sense (particularly in the Coventry & Warwickshire workshop) that this Birmingham growth could be at the detriment of the surrounding places. This is either due to businesses moving into lower value office space being freed by the internal movements in the City centre or a 'brain drain' from local firms into the large players expanding or moving in. This was further compounding labour shortages and impacting on capacity in local BPS nodes.

The sector is predominantly high-level jobs, with graduate level staff and with the associated demand for high quality housing, cultural offer, sporting offer and business entertainment demand. This is reflected in Birmingham's offer, especially the strong, high quality food and drink offer, the corporate entertainment and conference facilities and the vibrant hotel offer. The sector also creates significant demand for international and national travel infrastructure, especially the airport – to service the client base and provide access to London.

The sector battles the perception of the West Midlands and Birmingham as a place, not only from the point of view of the 'concrete jungle' or ugly image, but also the perception that jobs are low value, with little career progression and lack of interesting clients. Many respondents cited the perception of 'back office' as significantly damaging for the sector and limiting ability to attract staff to the region. They perceived this issue as their most significant problem regionally, because of its impact on their labour force.

Across the board there is an expectation of growth in the West Midlands, and Birmingham is seen as the growth region for the sector. Flagship investors moving in are driving this perception, but respondents stressed the need for this needs to continue and there needs to be a steady flow of flagship new investors and flagship brands. Some companies say that this growth is at the expense of other regional teams, i.e. consolidation in Birmingham as part of overall reductions but with net growth in Birmingham, which has implications for other cities and the national picture. However, this growth will happen – but the nature and shape of growth will be highly dependent on how the regional structures respond and help shape the context, infrastructure and labour market. Perception is that the current productivity issues will be exacerbated within this growth scenario, such as available workforce, transition to online services, price pressures and wage pressures.

Overall there was a high degree of social and cultural buy-in to the region from respondents – and highly personalised 'stickiness' to the place – which is fuelling belief in the place and its continued growth. Perceptions are incredibly important in economic growth as perceived

vibrancy and attractiveness of a place is potentially highly influential in business and individual decision making.

BREXIT, although seen as an unknown, was not seen as one of the major challenges per se, and could in fact be a positive for the sector in the region. Those that provide international services are already international businesses, those that aren't could benefit from providing post-BREXIT services. The main challenges were AI and technological change (and their lack of knowledge and expertise to prepare for this), general economic stability within a sector and world which is rapidly changing on many levels and front and the changing labour market structure.

CONTRIBUTION TO ENTERPRISE THEME

The companies interviewed broadly split into 2 types, regional arms of multinationals and 'local' large players with national significance, as noted in the research methodology. This 'status' significantly changes the nature of answers, particularly around client base, outlook and some service areas. However, there was consistency on the move to spatially disparate teams where function and specialism was more important than proximity to client; attitude to growth; level of occupations and risks and challenges. In terms of subsectors there were very few differences, of significance where:

- Banking more likely to have call centre or administrative roles
- The more 'personal' the service i.e. wealth management the less likely AI was an issue
- Only real gap in the sector was around activities linked to the City of London (i.e. density of stock broking services or specialists, although it is offered within wider financial services)

The high cost of entry means this sector is predominately long-established firms who can trace their heritage back hundreds of years and have grown through M&A activity. A large number of them however have those roots in the region, although these roots may have shifted, and as their national role has grown HQs move to London. For a number of firms, whilst they have a registered HQ in London they still maintain a significant presence; this may account for numbers of high value of jobs.

There was no consistent 'specialisation' rather this is the only place outside London with a 'full service' offer, where the majority of companies (especially the larger 'regional' companies) offer all services and functions and had very little need to refer to other places/offices. Although there is some evidence that that services align to local sector specialisation and the local client base i.e. advanced manufacturing advice and guidance, exporting, IP etc.

In terms of reasons for being in the region, these were largely related to geography in terms of accessibility to elsewhere, and being central, yet close to London and good accessibility to their national markets. Labour availability was important, however labour costs were less of a draw as wages were broadly similar everywhere and in fact the heating of the market and labour shortages are showing early signs of wage inflation. History is also a driver for being here, either their HQ was or is here, or they purchased a company in the region, or the regional lead has a personal relationship with the region and set up an arm of a larger firm to come back (i.e. from here, studied here, worked here previously).

The sector is also suffering from significant changes to the structure of employment, traditional 'partner careers' are no longer of interest to younger employees; who favour work life balance and flexibility. This is creating incentivisation issues, higher drop out at the middle career stage and lack of new leaders.

CONTRIBUTION TO PEOPLE THEME

Most companies locally are seeing growth and predict significant growth in the future. This growth is already impacting on the labour market, with significant constraints being felt, relocations such as HSBC from London is being high volumes of jobs over a short timescale which is impacting on the rest of the sector. The perception from employers is that there aren't enough qualified people to do the jobs now and coping with future demand and growth, just within their own firms, was seen as a significant issue. As highlighted, their main issue is attracting people to the West Midlands, as the area still has negative perceptions in other places. Priority for them is retaining people studying at the universities and managing the impact of significant wage driven poaching from each other which is over inflating pay.

Across the board, the gap nationally and locally is for staff who have 5 to 10 years' experience. This is common within the standard 'story' of the sector, however it has been exacerbated due largely to a demographic challenge caused by people not going into the sector in 2008 to 2011 due to the crash and bad publicity surrounding the sector generally, combined with faster than anticipated growth; effectively a 'double-whammy'. This is creating a significant skills shortage in middle management and impacting on productivity as the management skills and experience aren't there and inexperienced managers are going through accelerated promotion without the experiential learning. Locally it's causing some artificial wage inflation, over employment, poaching and constraints in growth due to inexperience. The growing retiree pool at senior leadership is further challenging the depth of the pool coming through to lead firms in future. This is not an issue which can be resolved by training and education in the short term and requires investment in attracting skilled people from elsewhere to fill the gap.

This constraint is also happening on the back of servitisation with jobs at the bottom of the rung being replaced by tech solutions, further reducing the pool of potential managers as fewer people are and will be entering at the bottom of the career ladder. However, for now, most companies said they are keeping up recruitment as job structures are changing and they still need a development pool. This restructuring is also creating higher value in the jobs remaining, with a stronger emphasis on business development, client relationship, and offering bespoke advisory solutions. Employees were described as needing to be 'Swiss Army Knife' with not only the niche technical expertise but broader skills around client management, business engagement, sales, financial management and relationship management. Client expectations are rapidly changing due to the demand for online and free services especially around contracts, account management, employment regulation and banking management. This means that the services clients they are buying are more personalised, more complicated, and require greater experience and relationship management to secure.

Relatively recently the sector is seeing the impact of technology and AI affecting their business structure, productivity gains are generally through introduction of tech and overall reduction of jobs, whilst also demanding high prices for complex services.

The majority of the jobs are highly skilled, with a minimum of a degree, and are increasingly at a higher professional and technical level. Back office lower level roles are being lost, where significant numbers remain this is largely in banking or where the HQ is in the region, but even these are becoming more specialist, i.e. debt recovery. This is reducing the number of lower level jobs and in some sub-sectors this reduces pathways into higher level jobs or reduces the pool of people to promote. This restricts the number of pathways into higher level roles. There is evidence of increased school leaver entry points in recent years but is largely driven by very competitive labour market and early identification of future talent. Some companies are developing very long-term approaches to taken spotting locally and see relationship building with schools and pupils as a long-term investment in the workforce. Recruitment is increasingly a relationship with frequent touch points than transactional advertisement and appointment.

Employers are largely agnostic about subjects taken and grade deflation is evident in some businesses for entry requirements, in order to attract a wider range of applicant. There is emphasis on 'business/ interpersonal/ soft skills' on entry, with expectation that job knowledge can be taught on the job.

Traditional supply side models of graduate recruitment are dominant and works on the whole. Any review and change to this model is driven from the need to diversify and expand recruitment supply.

Most skills development is done internally or through specialist training and is highly developed and organised. The sector appears to favour an 'events'-based approach of technical experts presenting for long term ongoing training. However, this is one of the few issues they felt that London was better for (mainly due to density of opportunity) and that there was a regional gap in provision.

Technology and digital is the most consistent skills gap cited: these are specific skills related to the sector, i.e. commoditisation of services, online delivery, risk analysis, tracking and monitoring, reducing regulatory process burden, customer experience improvement, or cost management. Respondents generally didn't have detailed understanding of the technology, and there was an expectation that they 'would not be technology companies'; rather they bought these skills in for specific activities, however the expertise largely sits in London companies and there is high competition with other sectors. They would rather have a supportive Fintech/process tech sector locally. Services would include new product development, and systems which manage standard processes, contracting, HR, audit, accounts with Fintech concentrated in the banking sector.

Generally, there was a lack of engagement with the local organisations involved in skills and productivity, and the sector is largely self-organising, and respondents didn't see how they would use them or what value they would add. There has been minimum use of the apprenticeship levy and accessing public money or support.

Although not directly asked about diversity, a number of respondents volunteered the fact that the West Midlands offices are seen as the most diverse within their company and often best practice, with one respondent feeling the need to prepare London visitors for the diversity; however most felt there was more to do to ensure tapping into the diverse population to ensure they had a strong supply of labour locally and better ability to service global markets.

CONTRIBUTION TO IDEAS THEME

Generally, it was noted that the sector is by nature, risk averse, given their business purpose is to advise on how to avoid and mitigate risk, whether that is avoiding penalties for breaking the law, avoiding legal costs or de-risking imports, the whole structure of the services is reducing business costs and risks. Responses were often 'we are an organisation filled with accountants' which is to say they are largely roles which are about managing the costs and reducing investment waste, therefore investment in the new and risky services or products can be difficult. They stated that this means innovation does not come 'naturally' to employees. This attitude was not specific to West Midlands and was felt to be a general sector issue. They find it difficult to successfully exploit new ideas as they are trained to reduce risk and implementing the 'new' with unknown returns and impacts goes against their training.

Most firms did not have organised innovation processes or activities, but there are some good examples of best practice, which were carried out globally across firms or locally for local clients, such as 'hive' systems where problems and ideas are shared globally. As evidence suggests that innovation is more successful if there is a strategic lead or if someone owns the agenda this is an issue for the sector. This was particularly emphasised in the tech and digital areas where a lack of knowledge was thought to be constraining innovative thinking and solutions. As noted earlier there is some desire to build out a 'tech' capacity within firms, i.e. banking, however the majority would rather have a specialist tech sector to 'commission' from for key services. At the moment they go to London. This lack of innovative capability and the lack of organisational structures to absorb the capacity, also reinforces the broader skills gaps stated of business development skills, client relationships, spotting sales and offering more than the standard sector services.

Innovation is largely driven by client-demand, therefore they are reliant on their clients being innovation active and demanding new responses. They are also very client driven and there were examples of innovation developed and the client refused to take it up, so investment was wasted. For example, one respondent noted they had developed solutions in the past but then failed to get clients interested. For example, GDPR changes where clients didn't see the need to invest or change things in advance of the legislation coming into effect. Therefore, investment and time in innovation was difficult to justify, unless there was a proven financial saving/saleable product.

The sector's drive for cost efficiency, strong business planning and protection of rates is having an effect on the ability to think differently and innovate. Some respondents also highlighted the fact their recruitment practices reinforce this, their formulaic graduate approach continues to bring in the same employees and there is significant evidence of them 'recruiting in their own likeness', however most respondents saw this and were

proactively trying to change this. They saw the potential of new ideas and innovation as a key driver. The focus on personal tailored support for clients appeared to be generating a view that their employee base should reflect their client base.

Competition is linked to innovation in the sense of recognising market change and innovation elsewhere and bringing it back to the firm; firms that don't innovate in this way, keeping up with the competition, ultimately die. The sector generally responds to client asks and doesn't lead, therefore there is a risk that they are blindsided by change. This approach further reinforces the need for very close relationships with clients. The competition structure is similar to other sectors which have a multinational element in-built: the small core drives the rest of the sector and companies closely watch each other and despite commercial protectionism, there is a high degree of collaboration and networking albeit more cross sub-sector than intra-sub-sector.

Competition happens at all levels, international, national and local, and in a way unlike other sectors, as their client, supplier and competition base are multi-sectoral, there are indications that competition can come from other sectors. In terms of innovation this can be an advantage as the sector can take innovation from one sector and transplant into others. This would be a significant advantage for the West Midlands given the nature of its full service offer. The sector generally has a significant role in the competitiveness of other sectors, both through the services it delivers, and the role it plays in driving business growth and advising companies on it. This role includes driving technology implementation, changing inputs such as labour markets; exporting and trade advice; mitigating costs and litigation; IP/ R&D; streamlining and efficiency in processes.

There is however a "perceived" competition structure, where the more international a client is the more likely they are to move up the BPS 'structure', either through the company to London, or through the value chain. However, there is evidence this is changing, and most respondents stated this was not necessary it was more to do with client prejudice and perceptions on services offered.

The most significant competitive threat is the cyclical nature of the rise of the 'accountant' within client firms where the approach of 'internal' service provision grows and shrinks. Companies building internal expertise not only poaches staff but also reduces the need for external services.

CONTRIBUTION TO INFRASTRUCTURE

This is not a traditionally capital investment hungry sector; however investment is in high end buildings and professional environments, reflecting the image of the organisation and services offer and increasingly the values of employees. Building quality and availability was not seen as a significant constraint; in fact some companies referred to having a 'choice' in building offer, not seen elsewhere.

The recent growth in building offer such as Snowhill frees up other high-quality offices and there is a movement up the value chain, this opens up better office accommodation for the growing mid-tier. However, companies did feel this has to be seen as a continual process of review, of the growing cost of the city centre could constrain growth.

Transport and connectivity was seen as an asset for the region, central location, and public transport, especially access to London being an advantage. However, the international firms did highlight the need for international airports and routes (although not seen as a major barrier as London is so close). Local transport was seen as a quality of life issue, not a business-critical issue, other than the interface with attracting and retaining talent. It wasn't stopping them growing (as didn't create a business constraint) but did create issues for employees getting to work although this wasn't seen as something they would intervene in. The only other constraint mentioned was depending on where you are in the region, broadband can be an issue and when it is, it is business critical as their business model relies completely on internet services.

IMPLICATIONS FOR INTERVENTIONS

Taking the above into account, the implications for interventions to support future growth and increase in productivity in WMCA region are:

- Real differentials appear to be related to labour constraints, specific job skills or more generally tech, and the development and application of new ideas and innovation so new models of innovation and skills development may need to be developed that work with the sector and within the structure of how they train.
- There are varying degrees of regional embeddedness, usually related to size and international nature of the company, highlighted by lack of knowledge about local supply chains and buying of services or business expenses such as entertainment and events. Local procurement may be an area worth further research and collaboration on.
- The need to grow the Fintech/digital and software process sector locally, widen the business base, and skills availability, develop the supply chain and invest in AI/process/tech skills generally, bearing in mind the Fintech sector can be a competitor.
- Attracting staff to the region and from other sectors (Tech) is key to innovation and growth. There is a need to focus on “regional returners” and filling higher value jobs now, whilst preparing and retaining the labour supply for the future. Collaboration with local HE Business Schools is essential to improve graduate retention and working with alumni as a source of retention and return.
- Need to focus on developing the local labour market supply, especially tapping the diverse population and accelerate business experience in order to be more productive sooner. Looking at new access routes into traditionally ‘milk round’ jobs and doing this in sufficient numbers to have an impact.
- There is a perception that the standard routes and training are fit for purpose, and they recruit nationally, apart from the acquiring of softer skills which need work experience and exposure. The sector is putting a lot of effort into this locally, this could be accelerated with more investment and scale up to ensure local people can access local BPS jobs.
- It also highlights the difficulty they have moving people to the region or retaining people in the region, because of perceptions of the type of work (i.e. back office, low value etc) and perceptions of the place. This comes out as the single biggest area the CA could work on.
- Brand positioning of the region is particularly important, especially one which is high value not back office activities and low value jobs, as this would be detrimental to

the image they are promoting and the employees they are trying to attract. Most companies were in favour of growing the sector to improve and deepen the labour market they could access.

The findings and discussion also critically informed the prioritising factors for choosing the interventions to recommend to "super-charge". These factors became:

- Sector growth focused as opposed to enabling features focused (*due to spillover affect accounted for within multipliers*)
- Targeted i.e. Sector specific (*as far as possible*)
- Align with evidence base of needs, prioritising activities which link to productivity drivers with most impact: People (skills) and Ideas (innovation). (*Within skills - accelerate acquisition of business experience/ transferable skills; access to new talent local talent pools/ very specific skills around technology needs*)
- Proven track record and potential to scale.
- Align with inclusive growth/ social mobility/ leadership commission i.e. 'good growth' principles⁶
- Speed of implementation and impact potential: prioritising short term visible activity with long term impact.

Part III takes these and draws concluding thoughts along with specific recommendations.

⁶ Riley R, Measuring Success – review of indicators and recommendations. 2018 West Midlands Combined Authority

PART III - CONCLUSIONS & RECOMMENDATIONS

CONCLUDING THOUGHTS AND RECOMMENDATIONS

The original optimism for the potential of the BPS sector in the WMCA region seen in the data has been affirmed through the deep-dive consultation process. The evidence and ensuing discussion leads to a conclusion that the BPS sector (based on the two sub-sectors researched thus far) in the West Midlands has a clear opportunity to compete on a global stage in its own right as a full-service offering, as well as also being critical to supporting the growth of other sectors in the region. Its reliance on talent and employment to succeed makes it a vital sector for place-based growth in skills and productivity.

But it cannot be taken for granted. To do so would be to risk not only that growth not being realised, but that the firms could leave as quickly as they are arriving. The focus has to be on embedding firms into the fabric of the region, which importantly needs to be done through greater connectivity with local talent pools to meet skills needs. This will enable these businesses to fuel and sustain predicted growth, but in a way where there is greater opportunity for local people, and influencing an agenda of good growth.

In relation to the Foundations of productivity driving industrial strategy locally and nationally, People (skills) and Ideas (innovation) were identified as being the most significant and the ones that should be the focus of future discussions relating to sector support within Local Industrial Strategy, national sector deal in regional economies amongst others that relate to productivity challenges .

By way of concluding thoughts, the research team emphasises these findings in particular to be considered and taken on board in future strategy discussions and – hopefully – associated action plans:

- **The sector has established critical mass with known growth in jobs, but is approaching potential tipping point where complacency around local skills and employment opportunities, combined with continuing low intervention, could result in an imported workforce and non-inclusive growth.**
- **Skills challenges faced are not ones that supply side can easily organise around e.g. knowledge-based solutions or specific pathways-based approaches as might be taken in other sectors. (Comparison = Skills Factory approach for manufacturing).**
- **Message in terms of engineering-based opportunities has 'landed' in schools/ wider communities with automotive 'poster boy' JLR. HSBC & PWC relocations have the potential to be the same, but still largely unknown.**
- **Caution required in terms of response to 'lack of digital skills' in sector as not likely to be a challenge for FE/ HE/ training providers, but for digital sector to respond to BPS sector as potential untapped client base. (E.g. industrial strategy "nextgen" services challenge fund.)**
- **Embedded culture of self-organising will require strong place-based leadership to effect any interventions.**
- **There are multiple different key stakeholders generating insight, strategy and policy recommendations which confuses all parties and generates this culture.**

With the objective of driving an agenda of inclusive good growth front and centre, the Commission makes the following recommendations in respect of the BPS sector for Financial Services and Legal and Accountancy:

Recommendation #1

Pursue skills and innovation as the priority productivity drivers with potential to 'shift the dial' for BPFs Sector in West Midlands

Recommendation #2

Adopt the recommendations for People (skills) with investment from the Deep-dive plus a coordinating body providing necessary infrastructure for place-based leadership required to deliver desired impact.

The People (skills) specific recommendations are in Table 2 below:

Super-Charge	Build	Maintain	Consolidate
“West-Midlands First” Scheme (Inc. Trainee Professional/Teach First style recruitment model)	Leadership development programme (consider expansion to cross sectors and/or incorporate leadership skills relating to innovation culture)	Coding clubs/digital skills agenda, but linked to services sector (as not currently in most pathways-based discussions).	‘Blizzard’ of networks and events, with considerable overlap and/or increasing specialisation in order to create niche identity.
Coordinated approach to business-school engagement (including Professional Services Week; Aspire; Enterprise Adviser Networks , Careers Hubs, BPS firm-wide offerings amongst others)	Coordinated event/ campaign for attracting/ retaining HE/FE to work in sector in region.	Young professional networks; associated groups for protected characteristics etc.	Education-business activities/brokerage services
Greater Birmingham Professional Services Academy (Part of BMet)			
Commission research into good growth, apprenticeships and better use of Levy and/ or design of school leaver programmes to achieve outcomes in regional economy for BPS sector			

TABLE 2: PEOPLE FOUNDATION OF PRODUCTIVITY SPECIFIC RECOMMENDATIONS

Recommendation #3

Build a brand proposition in region as described here, based on full service, high value offering to clients and employees.

Recommendation #4

Greater understanding of technology challenges and digital skills sought by businesses that shifts the narrative to one of innovation and procurement of solutions by the sector as a client of other sector firms as opposed to one of being a supply-side challenge for employment in the sector to solve challenges of transitioning to next-gen services. (E.g. Support BPFs firms in region to respond to Innovate UK call for Industrial Strategy Challenge Fund “next-gen” services.)

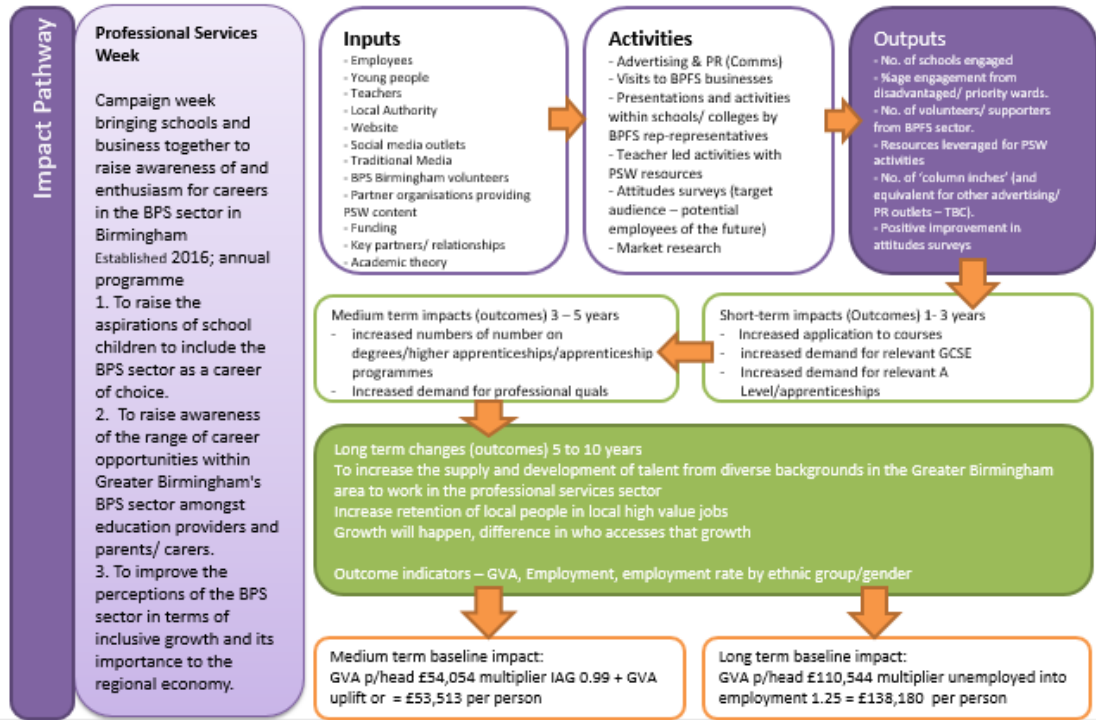
Recommendation #5

Greater public championing of sector to reflect its importance, priority status and drive enabling potential for good jobs growth in the wider region.

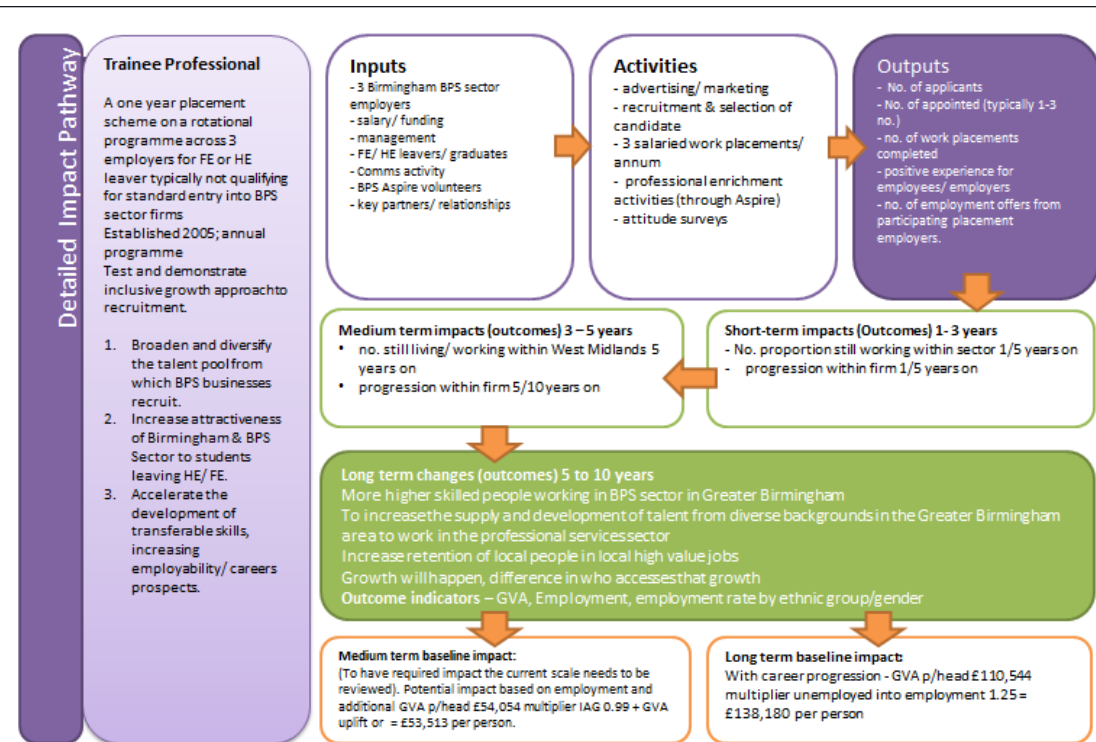
Recommendation #6

Develop findings in conjunction with BEIS to inform national sector deal for BPFs to maximise the benefit for West Midlands.

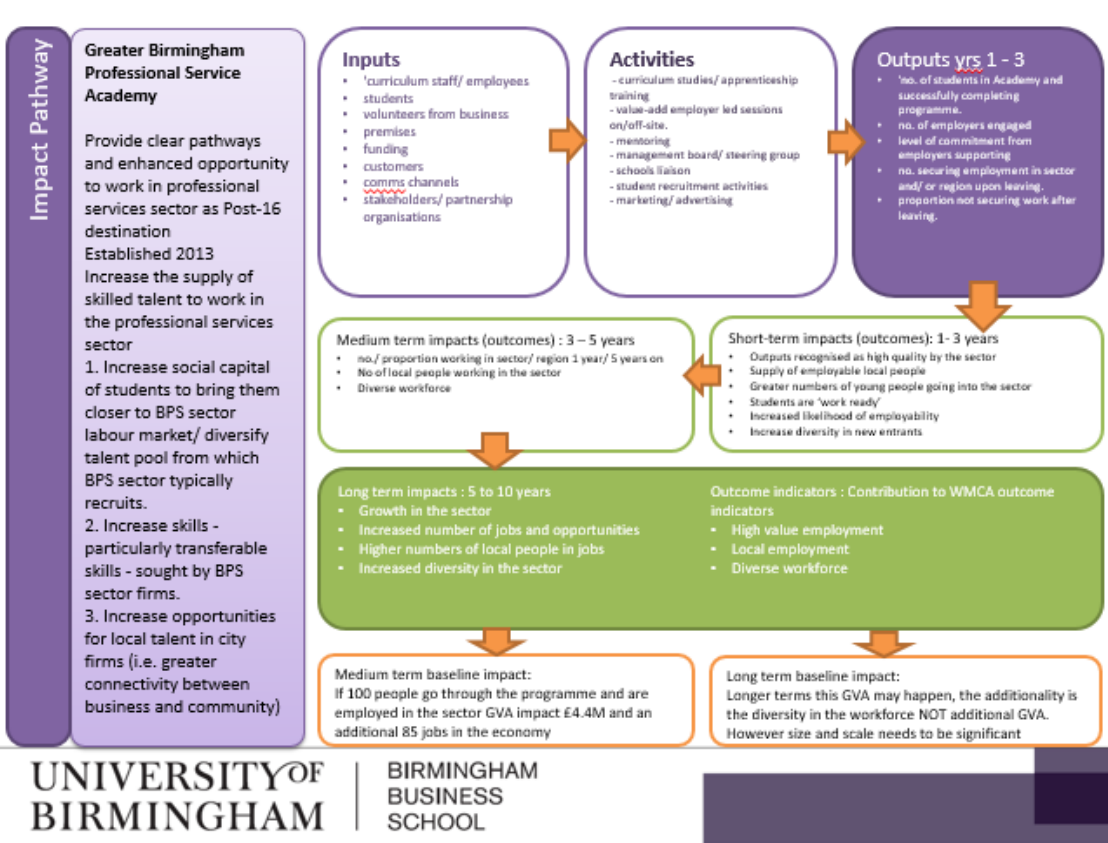
Appendix 1 – Impact Pathways



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